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Republican Policy Committee

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Clinton Crows About Deficit Reduction He's Not Responsible For

Cock-a-Doodle-Do!

". . .The Clinton forces claiming credit for the deficit reduction that has occurred during the past 3 years is a little like the rooster taking credit for the sunrise. . . . I also understand why the deficit has declined. And it is not because of any dramatic action by this administration. . . . That is why I was prompted, in analyzing this, to say that taking credit for reducing the deficit during the past 3 years is a little like the rooster taking credit for the sunrise. I stand on that. The more I think of it and explain it, the better it sounds and the better it explains what is going on."
[Senate Budget Committee Chairman Domenici, *Congressional Record,* July 16, 1996].

The Office of Management and Budget (OMB) recently released its latest budget update in which it projected that the deficit for the current fiscal year would be $117 billion. Never shy about trying to claim credit, the Clinton Administration mouthpieces quickly tried to make the connection that because deficit reduction took place while they were in office, it was therefore due to actions *they* had taken. As with Senator Domenici's rooster, the connection is only convincing to the rooster. The facts tell the real story.

The Clinton Administration's impact on the deficit has been minuscule: the only impact they can rightly claim almost completely came from raising taxes. It seems natural the rooster would want to take credit for the sunrise: it would increase his importance. The reason the President wants to take credit for deficit reduction is to ***detract attention from where the deficit is headed under this White House's policies:*** the deficit will begin a dizzying climb to more than $400 billion in 10 years, according to the Congressional Budget Office (CBO).

Deficit Reduction: Reality vs. Clinton Claims

OMB released on July 16 its annual report on factors affecting the budget, known as the Mid-Session Review: "The Administration now projects that the fiscal 1996 deficit will be $117 billion — $29 billion less than its March estimate in the President's 1997 budget." Deficit reduction is always good news. However, *how the deficit is reduced* (reduced spending or increased taxes) is what is important. Further, deficit reduction is no substitute for deficit elimination — a promise Bill Clinton made back in 1992 when he was campaigning. The White House's immediate claim that the deficit reduction is due to its action begins to unravel in the OMB report itself.

The Deficit Decline: What Credit Is the President Due?

Having reported the deficit decline, OMB then goes on to state to what it is attributed: "Estimated receipts for 1996 have risen from $1.427 trillion to $1.453 trillion, while 1996 outlays have fallen from $1.572 trillion to $1.570 trillion." That amounts to $2 billion of the new deficit reduction being due to spending restraint versus $26 billion from increased tax receipts. This more than ten-to-one ratio between new taxes and spending restraint is typical of the Clinton approach to fiscal policy. OMB's future deficit picture is just as skewed to revenue rather than spending savings. Of the deficit improvement projected over the 1996-2002 period, $93 billion will come from increased revenues while only $14.2 billion will come from spending savings. Yet even unsound approach to fiscal policy has had little impact on the deficit.

The Senate Budget Committee has broken down the origins of the $407 billion in cumulative deficit reduction over the FY 1993-1996 period. The FY 1993-1996 deficit reduction comes from three areas:

- technical changes or reestimates — $197 billion or 48 percent;
- revised economic forecasts — $51 billion or 13 percent; and
- legislative changes — $159 billion or 39 percent.

Of these three areas, President Clinton only has one — legislative changes — in which he could even plausibly claim to have had an influence, and then the influence is limited.

Technical Changes: Not Credit, But Luck

Even OMB denies the Administration's claims on technical changes: "Technical changes result from non-economic, non-policy conditions that are different than the Administration had once assumed . . . " "Non-economic" and "non-policy" conditions translated: luck. As the Senate Budget Committee points out, the largest component of these changes was $80 billion from the Savings and Loan bailout. The same bailout that artificially inflated the last year of the Bush Administration when the costs were first estimated is now artificially deflating the Clinton deficit as the original estimates are proved to be overly pessimistic.

Revised Economic Forecast: Claims Tenuous at Best

The Administration's claim on credit for positively revised economic forecasts is equally tenuous. Primarily, the credit goes to the Federal Reserve that controls the nation's money supply and has maintained the economic recovery that began under President Bush in early 1991. Note that further, the Chairman of Clinton's Council of Economic Advisors, Joseph Stiglitz, confessed to the *Wall Street Journal* (July 1, 1996) that "Clinton policies . . . didn't take hold until 1994," thus reducing the economic years Clinton can be credited for to just three. Interestingly enough, 1993's economic performance was higher than, and interest rates were lower than, 1995's and one-third (2.8 million of the 9 million) of the jobs Clinton claims to have created occurred in 1993.

Nor are the three remaining years as good economically as the President says. As the Joint Economic Committee (JEC) points out, job growth during Clinton's watch resulted in 2.75 million fewer jobs than the job growth of the last three economic recoveries. In fact, during the Clinton period, only 183,000 manufacturing jobs have been created, in contrast to an average increase of almost 2 million during other recent economic expansions. Overall economic growth is just as poor when compared with recent history. The gross domestic product (GDP) has grown at just 2.5 percent annually — well below the average since World War II (3.3 percent), the last five economic expansions (4.4 percent), the previous decade (3.2 percent), or even the year before Clinton came into office (3.7 percent). Had the economy grown at just the post-WWII rate of 3.3 percent, the average family would have realized an additional $40,000 in income by decade's end, according to the Dallas-based Institute for Policy Innovation. And growth is only expected to go slower, as Federal Reserve Board Chairman Alan Greenspan predicted GDP declining to as low as 1.75 percent next year. Finally, inflation in the first six months of 1996 is up markedly over the last year — to 3.5 percent from 2.5 percent.

Legislative Changes: Credit Clinton Here —for the Tax Hikes

Legislative change, which constitutes 39 percent of the deficit reduction over the FY 1993-96 period, is the one area for which the White House can take at least some credit. The reason is because — as the Senate Budget Committee points out — ***76 percent ($121 billion) of the legislatively-attributed deficit reduction came in the form of tax hikes***. These new Social Security, gas, income (retroactively as well), and payroll taxes were proposed and signed by the President in 1993, after only members of his own party supported them in Congress. For this ignominious achievement, President Clinton can take full credit, as well as for the fact that last year the amount of GDP paid in federal, state, and local taxes climbed to 30.4 percent — the highest in history.

As for deficit reduction coming from savings on the spending side, the White House can take almost ***no credit***. A bare 6 percent of the FY 1993-96 deficit reduction came from just $26 billion in net spending savings — not cuts, but just savings from CBO's assumed level of spending. The President's refusal to countenance virtually any spending restraint whatsoever is further accentuated by a breakdown of the $26 billion. Of the $26 billion, 73 percent ($19 billion) came from the Appropriations process last year — during the time when the President's party no longer controlled Congress and only after President Clinton had vetoed five bills that would have produced even more savings.

Of the Clinton legislative changes, just $7 billion can be attributed to net savings on spending. That is just 5.5 percent. In context of the whole deficit reduction, Clinton's minuscule $7 billion accounts for less than 2 percent.

However, if they are looking for taking credit for something, the White House can take credit for ***stopping future savings in spending***. Consider that the entire amount of deficit reduction for which the White House is currently crowing about is $407 billion, while the spending savings he *vetoed* when he rejected the Balanced Budget Act last year was more than twice that amount — $898 billion over seven years.

It is for these reasons that federal, state, and local governments consumed the largest percentage of GDP ever — more than 31 percent — and that personal income taxes under Clinton have increased 1.6 times faster than the country's GDP growth and corporate taxes have increased 3.5 times faster.

The Future Clinton Wants America to Ignore

Like the rooster Senator Domenici mentioned, the President wants full credit for the rising sun. However, the rooster seems to believe he has no responsibility for its setting. The best way to prove his claim to past performance would be to influence its future course. This is something the rooster cannot do and something the President refuses to do. As already noted, the President vetoed the legislation that would have eliminated the deficit.

The White House will promise that it has a plan that will eliminate the deficit. Yet, if Clinton Administration promises came true, the country would already have the balanced budget, welfare reform, and middle-class tax cut that the President promised America in order to get into the White House. CBO confirms the emptiness of the President's promise of a future balanced budget:

> *"The President presented a set of policy changes intended to eliminate the deficit in the budget he submitted in March. Under CBO's more cautious economic and technical assumptions, the basic policies outlined in the* ***President's budget would bring the deficit down to about $80 billion by 2002 instead of producing the budget surplus that the Administration estimates."***
> [CBO Director June O'Neill, testimony before the House Budget Committee, 4/17/96]

The shortfall is $81 billion to be exact, and just how little movement that amount represents from the current FY 1996 $117 billion deficit demonstrates how little influence the President actually wants to have over the deficit reduction.

The President is proposing to reduce the deficit by $36 billion over six years, which amounts to just $6 billion per year. Interestingly, that's almost the same amount which he achieved from spending savings over the whole FY 1993-96 period. The reason is that the President's latest budget contains just $90 billion in new taxes — well less than the $275.5 billion in increased taxes he ushered through in 1993. Without the extra taxes, he cannot find a way to get the deficit to balance. The obvious dilemma is that under this President, most of the deficit reduction which he can effect would be accomplished with tax hikes. That seems to be all he can envision.

Future Deficit Reduction: Do We Want it Clinton's Way — From Tax Hikes?

CBO has made it clear that without direct action, the deficit will begin an upward spiral next year. In contrast to the largely autopilot fiscal policy that has benefited the President from FY 1993-96 with $407 billion in deficit reduction, running on autopilot beginning next year will set us on a course for fiscal disaster. According to CBO, the deficit will increase by $54 billion in FY 1997 and continue growing to over $400 billion in FY 2006.

An even worse prognostication of the country's fiscal future is given by a glimpse at the President's past performance. Of the deficit reduction that has taken place while President Clinton has been in office, just one-third can be partially attributed to the President's action. Of this amount, just 5.5 percent is ***not*** from increased taxes. The President's tax increases have already contributed to taking almost a full percentage point off the average economic growth America has experienced since WWII (from 3.3 percent GDP growth to just 2.3 percent).

Deficits will begin increasing next year with no end in sight. Further tax increases such as the one enacted by President Clinton will only further reduce growth already slow and slowing. Yet the President has proven that the only way he can countenance reducing the deficit is to raise taxes. Such a scenario is nothing to crow about.

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